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SIPDIS

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DEPT FOR EAP/MTS AND EB/IFD/OMA
TREASURY FOR IA-SETH SEARLS
COMMERCE FOR 4430/KELLY
DEPARTMENT PASS FEDERAL RESERVE SAN FRANCISCO FOR CURRAN
DEPARTMENT PASS EXIM BANK
SINGAPORE FOR SBAKER
TOKYO FOR MGREWE
USDA/FAS/OA YOST, MILLER, JACKSON
USDA/FAS/OCRA CRIKER, HIGGISTON, RADLER
USDA/FAS/OGA CHAUDRY, DWYER
USTR WEISEL, EHLERS

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TAGS: [EFIN](#) [EINV](#) [ECON](#) [EAGR](#) [ID](#)
SUBJECT: EXPERTS URGE NEW APPROACH TO RICE POLICY

A) Jakarta 762 B) Jakarta 684 C) Jakarta 286 D) Jakarta 780

11. (SBU) Summary. The vast majority of Indonesia's population, including a large number of farmers, stands to lose from high rice prices, panelists stated at a forum hosted by the Centre for Strategic and International Studies (CSIS) on April 24. In contrast to this view, President Susilo Bambang Yudhoyono recently stated that high food prices are a blessing for Indonesia. Experts urged the Government of Indonesia (GOI) to introduce measures to revitalize the agriculture sector and allow a larger share of farmer's and the rural population to benefit from higher rice prices. Experts expect rice prices in Indonesia to rise this year due to increased smuggling and hoarding, despite a better harvest. The margin between local and international prices is close to \$700 per metric ton. Historically high world prices are a function of export restrictions rather than excess demand, according to the Forum's experts, and require international cooperation to control. The GOI is considering modifying current subsidies to alleviate the pain of rice price increases, but has no concrete plans to invest significantly in longer term agriculture sector improvements, according to a key GOI agriculture policy official. End Summary.

Experts Urge Policies that Benefit Majority

12. (U) The Forum's speakers examined the links between rice prices and poverty in Indonesia and concluded that the vast majority of Indonesia's population stands to lose from high rice prices. According to their research, high rice prices will negatively impact as much as 80 percent of the population. The real beneficiaries from high rice prices are the 6% of rice farmers who own more than a half hectare of land. Illegal traders could also gain significantly from the growing gap between Indonesian and world rice prices, currently close to \$700 per metric ton. In contrast to other economies, high rice prices tend to lower real incomes in rural areas in Indonesia, the experts warned. In contrast to the findings, President Susilo Bambang Yudhoyono recently stated that high food prices are a blessing for Indonesia because of the benefit

high prices provide to the agriculture sector.

13. (SBU) The most effective way to stabilize prices over the long term is to invest in agriculture infrastructure and allow farmers to make crop decisions based on market prices rather than storing rice or subsidizing prices, according to the economists at the Forum. The experts conducted the research presented at the Forum during a period of low international world prices. As a result, the authors concluded that Indonesia should remove import restrictions that keep Indonesian rice prices high relative to the rest of the world and hurt the overwhelming majority of the Indonesian population. In the current environment, the presenters urged the GOI to focus on improving household purchasing power and the ability of the agriculture sector to respond to market signals. Cash transfers are an effective immediate term solution to increasing household incomes, according to many Forum participants. However, the experts urged the GOI to 1) invest in irrigation and roads in rural areas; 2) reduce land use restrictions; and 3) increase extension services and seed approvals that allow farmers to improve productivity and raise incomes in the sector. Although building stockpiles and subsidizing rice production can also smooth volatility in rice prices, these methods are much more costly than market-based responses, according to the Forum's speakers.

Indonesian Rice Data: The Rice Puzzle

14. (SBU) The Forum experts also urged the GOI to improve data collection in the agriculture sector, which is extremely unreliable and hampers effective policymaking. The researchers found that there is a 17 percent overestimate of rice production in Indonesia. GOI survey estimates also ignore factors such as industrial use, leading to an underestimation of consumption. The data problems have created the long-standing "Rice Puzzle", where Indonesia is an

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actual rice importer, but the data indicate that they should have large surpluses. The forum participants believe rice prices are the only reasonable indicator of the demand-supply balance in Indonesia.

Pressure on Rice Prices Mounts, Intl Cooperation Key

15. (U) Indonesian rice prices could rise significantly this year if international rice market conditions remain tight. The forum panelists expect this year's rice harvest to be at normal levels (not the bumper harvests reported in the local press) and to meet the majority of domestic demand. However, if international prices remain at current levels or move higher, the incentive for traders to smuggle rice out of the country or to hoard rice in anticipation of local price increases will be strong. USDA estimates that the Indonesian government will need to import 1.1 million metric tons (MMT) (the price of which is now \$1.3 billion, putting additional pressure on government finances) in the current crop year even without an uptick in smuggling. Yet the volume of inter-island trade has doubled in recent weeks, with most of the movement from Java to Sulawesi, from which small shipments can easily be smuggled to the Philippines. Large price increases could devastate low income Indonesians who spend a quarter to a third of their income on rice.

15. (U) The forum participants also urged the GOI and countries around the world to cooperate with their neighbors in order to thwart or reverse the current run up in international rice prices. Restrictions on rice exports in India and Vietnam, which has quickly spread to other countries, rather than a surge in demand, sparked the run on rice prices, according to the Forum's researchers. They assert that international rice stocks are sufficient to meet international demand. The experts worry that individual nations will remain focused on their own immediate interests at the expense of rice importing countries in a classic "prisoners dilemma." While export restrictions may keep local prices low in the short-run, they also contribute to larger long-term local and international price increases by encouraging smuggling and hoarding and discouraging rice farmers from investing in technology to increase supply.

16. (SBU) According to Bayu Krisnamurthi, the Deputy Minister from the Coordinating Ministry for Economic Affairs, Indonesia is considering shifting or increasing some food subsidy programs, but is unable to undertake longer-term measures to revitalize the agriculture sector. Bayu complained that until the GOI can confirm that current market trends are permanent rather than speculative it is impossible for the Indonesian government to gauge an appropriate policy response. Difficulties in measuring farm output also hamper the government from developing strong policies to improve the farming sector, according to Bayu. Bayu also downplayed hopes that Indonesia would work with its neighbors to try to stabilize rice prices across Asia, stating that he had not heard of plans for such discussions. Instead, the GOI plans to maintain export restrictions and expects that the current crop will meet domestic demand.

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